

Washington State Auditor's Office

Audit Report

Audit Services

Report No. 57796

CITY OF NORTH BEND

King County, Washington

January 1, 1995 Through December 31, 1995

Issue Date: October 18, 1996

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CITY OF NORTH BEND
King County, Washington
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With State
Laws And Regulations**

Mayor
City of North Bend
North Bend, Washington

We have audited the financial statements, as listed in the table of contents, of the City of North Bend, King County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated August 16, 1996.

We also performed tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the city complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office.

Compliance with these requirements is the responsibility of the city's management. Our responsibility is to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the city and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an overall opinion on compliance with these requirements. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of material noncompliance that are required to be reported. However, we noted instances of noncompliance immaterial to the financial statements which are identified in the Schedule of Findings accompanying this report.

This report is intended for the information of management and the mayor and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

August 16, 1996

CITY OF NORTH BEND
King County, Washington
January 1, 1995 Through December 31, 1995

Schedule Of Findings

1. The City Should Comply With State And City Requirements Governing Reimbursement Of Employee Business Expenses

Our examination of employee business expenses disclosed the following issues:

- a. During our 1993 audit, we determined that the city council had not adopted an ordinance or resolution establishing comprehensive rules and regulations for reimbursement of employee travel expenses. Such an ordinance or resolution should define the municipal policy on charging expenses to the city and it should prohibit reimbursement for personal expenses. This issue was reported as a finding in our 1994 audit. As of the last day of field work (August 16, 1996) the city council still had not adopted such a policy.

RCW 42.24.090 states in part:

No claim for reimbursement of any expenditures by officers or employees of any municipal corporation . . . for transportation, lodging, meals or any other purpose shall be allowed by any officer, employee or board charged with auditing accounts unless the same shall be presented in a detailed account: PROVIDED, That . . . the legislative body of any municipal corporation . . . may prescribe by ordinance or resolution the amounts to be paid officers or employees thereof as reimbursement for the use of their personal automobiles . . . in connection with officially assigned duties and other travel for approved public purposes
. . . .

The lack of an adopted policy increases the likelihood that public funds may be used for personal purposes.

- b. On June 7, 1995, city officials issued an advance travel fund check in the amount of \$1,000 to the city administrator for attendance at a conference in San Diego, California. As of the last day of our field work, the employee business expense report and related receipts had not been processed through the accounts payable system. We were unable to determine if this documentation was provided to appropriate city personnel.

RCW 42.24.150 states in part:

On or before the fifteenth day following the close of the authorized travel period for which expenses have been advanced

to any officer or employee, he shall submit to the appropriate official a fully itemized travel expense voucher, for all reimbursable items legally expended, accompanied by the unexpended portion of such advance, if any.

Any advance made for this purpose, or any portion thereof, not repaid or accounted for in the time and manner specified herein, shall bear interest at the rate of ten percent per annum from the date of default until paid.

This condition resulted in a \$1,000 shortage in the advance travel fund. In addition, we were unable to determine if expenditures were allowable or properly supported or if the actual expenditures were over or under the amount of the travel advance.

This condition was caused by the lack of a comprehensive travel policy and the lack of effective management oversight over the operation of the advance travel fund.

- c. On November 1, 1994, the city council adopted Resolution 686 establishing a \$125.00 per department limit on monthly cellular phone charges. During our 1994 audit, we noted that the city administrator exceeded this limit on six occasions accumulating a total of \$448.79 in excess charges through the July 5, 1995, vendor closing date.

During our 1995 audit, we noted that the city administrator exceeded this limit on two occasions subsequent to July 5, 1995. The city administrator's employment was terminated effective October 31, 1995. The city closed this account shortly thereafter leaving an unpaid balance of \$570.82. These charges had not been paid as of the last day of field work.

During our 1994 audit, we recommended that the city council amend the cellular phone policy such that the city would not be liable for excessive or personal calls. This policy was not amended as of the last day of field work.

Article VIII, Section 7 of the *Constitution of the State of Washington* states in part:

No county, city, town or other municipal corporation shall hereafter give any money, or property, or loan its money, or credit to or in aid of any individual, association, company or corporation, except for the necessary support of the poor and infirm

Because the city is ultimately liable for the unpaid cellular phone charges, incurring expenditures in excess of authorized limits and paying for personal expenses represents an unconstitutional gift of public funds.

We recommend:

- a. City officials replenish the advance travel fund and adopt policies and procedures designed to ensure advances from the fund are settled in a timely manner.
- b. The advance travel fund be reconciled to its authorized balance on a monthly basis.

We again recommend:

- a. The city council adopt an ordinance or resolution establishing comprehensive rules and regulations for reimbursement of employee travel expenses.
- b. The city council amend the cellular phone policy such that the city is not liable for excessive or personal calls.

Auditee's Response

City officials responded to a preliminary draft of our findings in a September 18, 1996 letter from Mayor Joan M. Simpson.

Excerpts from that letter have been included here.

- a. City officials will replenish the travel fund and amend the ordinance to include the new length of time approved by statute that employees may have to settle their advances.*
- b. The advance travel will be administered by the City Clerk and reimbursed to its authorized balance on a monthly basis.*
- c. The City staff will prepare and request that the Council amend the ordinance governing the advance travel fund to include comprehensive rules and regulation for reimbursement of employee travel expenses.*
- d. The City staff will prepare an amendment to present to City Council and request that the cellular phone policy be amended such that the employee is liable for excessive or personal calls if it is possible to do so and maintain the phones in the City's name and continue to be billed at the government rate. However, only those employees that respect the rules governing cellular phone usage would be allowed to maintain those phones.*

2. Vouchers Should Be Certified And Approved For Payment In Accordance With Statutory Requirements

During our 1994 audit, we noted payroll warrants and occasional claims warrants were issued prior to approval by the city council. The city council had not adopted appropriate policies and procedures authorizing this practice.

During our 1995 audit, we noted two manual warrants dated October 31, 1996, which were not approved by the city council. Specifically, in October 1995, a payroll warrant was issued to the city administrator for severance pay in the gross amount of \$49,334.34 and a manual claims warrant in the amount of \$3,392.17 was issued to a vendor for engineering services.

The city council is authorized under RCW 42.24.180 to establish policies and procedures facilitating the issuance of warrants prior to approval by the full council. The city council has not authorized this practice. Accordingly, city personnel do not have the authority to issue warrants prior to approval by the city council.

These conditions were caused by the lack of appropriate policies and procedures designed to ensure warrants were not issued prior to approval by the city council.

We again recommend the city council establish policies and procedures designed to ensure warrants are not issued prior to council approval.

Auditee's Response

- a. *The City staff will request that Council review existing policy and institute new policies where necessary, regarding both payroll and claims warrants.*
- b. *Treatment of the two different kinds of warrants may be different since usual and recurring payroll warrants are "pre-authorized" by Council in the salary schedule and budget.*

3. The City Should Comply With Statutory Public Works Contract Administration Requirements

In July 1995, the city entered into a time-and-materials agreement with a contractor providing for the construction of a new sewerage treatment plant building. The contractor started work in July 1995 and the city paid a total of \$539,672 under this contract through February 1996.

The city did not withhold retainage under this contract as required by RCW 60.28.010 until after a total of \$455,044 had been paid to the contractor for work performed through January 1996. In February 1996, city personnel discovered this error and deducted total retainage due under this contract from the contractor's last pay estimate.

The city did not obtain a performance bond from the contractor as required by RCW 60.28.010. RCW 39.08.015 states that, if the city fails to take a performance bond, the city is liable for contract related debts of the contractor.

These conditions were caused by lack of familiarity with certain statutory contract administration requirements.

We recommend the city withhold retainage and obtain performance bonds in accordance with statutory requirements.

Auditee's Response

- a. *The City will withhold retainage and obtain performance bonds in accordance with statutory requirements.*

4. The Annual Street Report Should Be Submitted Within The Prescribed Reporting Period

As of the last day of field work (August 16, 1996) the city had not completed its 1995 annual financial report for the Washington State Department of Transportation (WSDOT).

RCW 35.21.260 states in part:

The governing body of each city and town on or before March 31st of each year shall submit such records and reports regarding street operations in the city or town to the secretary of transportation . . . to enable him to compile an annual report thereon.

This condition, caused by employee turnover, hinders WSDOT's ability to compile a comprehensive statewide annual report of street activities in a timely manner.

We recommend:

- a. The city prepare and submit to WSDOT the street report for the 1995 reporting period.
- b. The city prepare and file future annual street reports within the prescribed reporting period.

Auditee's Response

- a. The City will prepare and submit the street report to WSDOT for the 1995 reporting period.*
- b. The City will prepare and file future annual street reports within the prescribed reporting period.*

Auditor's Concluding Remarks

We wish to thank the city officials for their thoughtful and timely response to our findings.

We will review the city's corrective action relating to these issues during our next examination.

CITY OF NORTH BEND
King County, Washington
January 1, 1995 Through December 31, 1995

Status Of Prior Findings

The findings contained in the prior audit report were resolved as follows:

1. The City Should Comply With Statutory Bid Law Requirements

Resolution: In August 1996, the city council adopted Ordinance No. 994 establishing comprehensive policies and procedures governing the purchase of supplies, materials, and equipment. We did not note any additional instances of noncompliance.

2. City Officials Should Ensure Revenues Are Collected In Accordance With Agreements

Resolution: The city discontinued concession operations at the North Bend Athletic Complex facility in January 1995. The contractor filed for bankruptcy in January 1995. As of the last day of field work (August 16, 1996), the city had not received any portion of the \$1,821 owed by the contractor.

3. Internal Controls Over Rates And Usage Of Playfields Should Be Strengthened And The City Should Comply With Related Statutory Requirements

Resolution: In April 1996, the city council adopted Ordinance No. 983 establishing formal policies and procedures governing rates and usage of the playfields. In March 1996 the city started using prenumbered invoices for field usage. City officials are in the process of negotiating an agreement with the not-for-profit customer providing for payment for 1994 and 1995 field usage.

4. The City Should Comply With State And City Requirements Governing Employee Business Expenses

Resolution:

a. *As of the last day of field work, the city council had not adopted a ordinance or resolution establishing comprehensive rules and regulations governing the reimbursement of employee travel expenses. See Finding 1.*

b. *In January 1996, city officials developed a central log establishing the total number and current assignment or usage of gasoline credit and debit cards.*

c. *As of the last day of field work, the city council had not amended the city's cellular phone policy such that the city is not liable for excessive or personal calls. We noted two additional instances of noncompliance. See Finding 1.*

5. Equipment Rental Fund And Equipment Rental Replacement Fund Charges Should Be Based On Actual Costs

Resolution: *In October 1995, city officials developed a formal study of costs actually incurred by the Equipment Rental and Equipment Replacement funds and incorporated these rates into the 1996 adopted budget.*

6. Fund Cash Accounts Should Not Be Overdrawn

Resolution: *We noted multiple instances of significant cash overdrafts in the Streets, WSDOT Surplus Property, Parks, Public Works Trust)Sewer, Sewer, and Equipment Rental funds during 1995. Effective December 1995, city officials developed policies and procedures designed to ensure funds are not overdrawn. We did not note any additional instances of cash overdrafts during 1996.*

7. Vouchers Should Be Certified And Approved For Payment In Accordance With Statutory Requirements

Resolution:

a. *In December 1995, the city council adopted Ordinance No. 979 appointing the finance officer/treasurer as the auditing officer.*

b. *The city council has not elected to authorize the issuance of warrants prior to approval by the full council. We noted two warrants issued during 1995 which were not approved by the city council. See Finding 2.*

8. Contractor Retainage Withheld Under Public Works Contracts Should Be Handled In Accordance With Statutory Requirements

Resolution: *In January 1996, city officials established policies and procedures designed to ensure that retainage is held in accordance with state law. During 1996, city officials either segregated retainage within the accounting system or executed escrow agreements for all public works contracts awarded during 1995.*

9. Internal Controls Should Be Strengthened

Resolution:

a. *In December 1995, the city implemented a computerized cash receipting system which provides for identification of the mode of payment for customer payments. Effective December 1995, moneys were receipted in a timely manner and were deposited intact and in a timely manner.*

- b. *Effective December 1995, city officials implemented policies and procedures designed to provide for a proper segregation of duties between utility billing and related cash handling functions and ensure customer account adjustments are properly authorized and supported. Effective June 1996, utility repayment arrangements were properly authorized and evidenced by written agreements with the customer.*
- c. *City officials have taken interim steps designed to determine if personnel positions are properly classified as either exempt or non-exempt and compensatory time is formally reflected in the computerized payroll processing system. The city council expects to adopt formal personnel policies and procedures in the fall of 1996.*

CITY OF NORTH BEND
King County, Washington
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Financial Statements And Additional
Information**

Mayor
City of North Bend
North Bend, Washington

We have audited the accompanying statements of Fund Resources and Uses Arising from Cash Transactions of the various funds of the City of North Bend, King County, Washington, for the fiscal year ended December 31, 1995. These financial statements are the responsibility of the city's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1 to the financial statements, the city prepares its financial statements on the cash basis of accounting that demonstrates compliance with Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the recognized revenues and expenditures of the funds of the City of North Bend for the fiscal year ended December 31, 1995, on the cash basis of accounting described in Note 1.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Long-Term Debt and Schedule of State Financial Assistance are presented for purposes of additional analysis and are not a required part of the financial statements.

Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Brian Sonntag
State Auditor

August 16, 1996